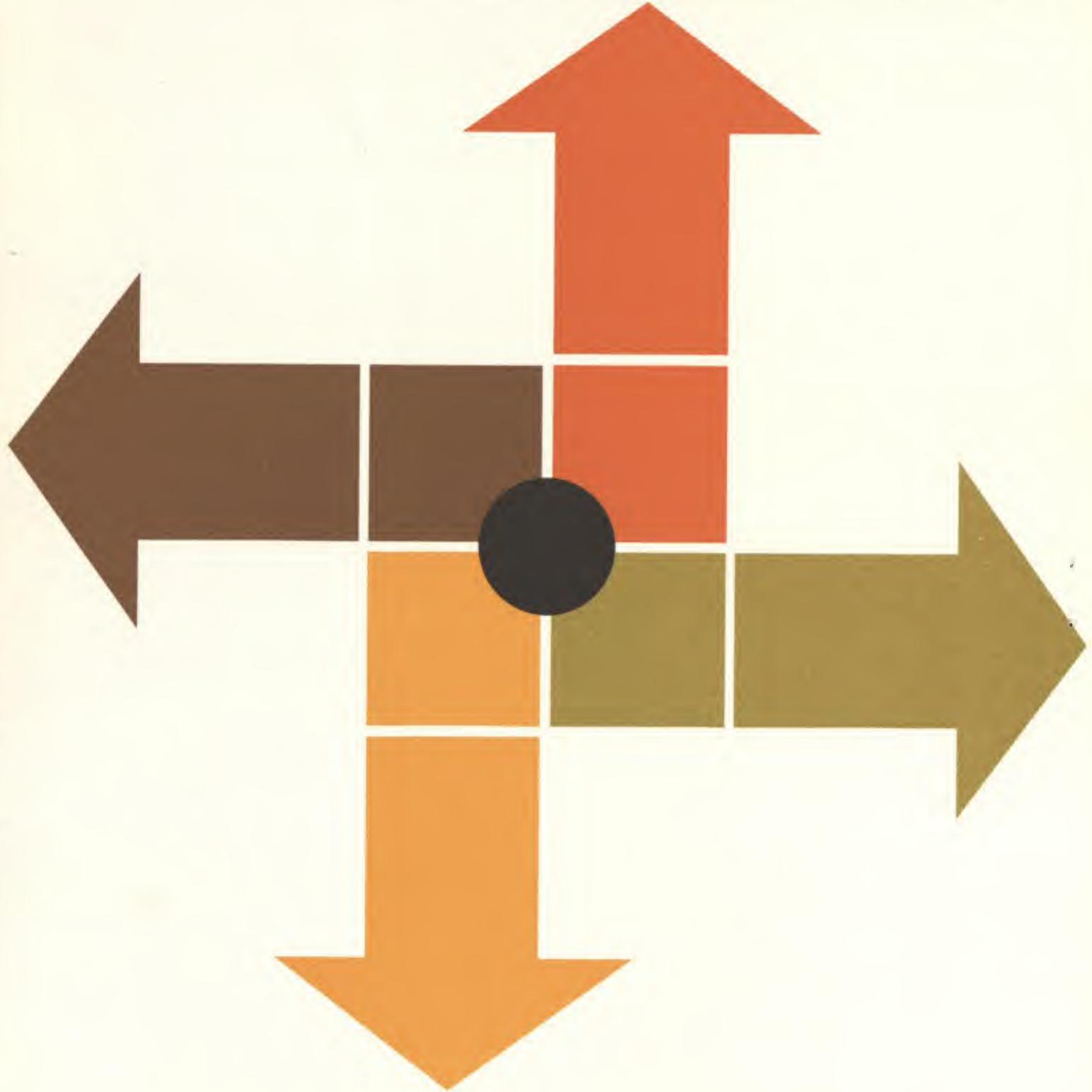


CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

McCRORY CORPORATION



ANNUAL REPORT 1965

THIS IS McCRORY:

McCrory Corporation is one of our nation's largest non-food retailing organizations, with 1,337 stores in operation coast-to-coast and in Puerto Rico, and with combined retail sales in excess of \$700,000,000. Its retail interests are concentrated in (1) variety stores; (2) automotive accessories stores; (3) women's and children's apparel stores; and (4) promotional department stores.

Retail operations are conducted through two major divisions and two subsidiaries which function largely on an autonomous basis. The Corporation's Home Office retains the responsibility for such activities as finance and audit, long-range planning, investment supervision, legal matters, insurance and pensions.

McCrory is now embarked upon a major store expansion program, having given emphasis in recent years to strengthening the management and supervisory structure at all levels, improving efficiency of existing stores and closing unprofitable units.

Its operations are:



McCrory-McLellan-Green—one of the country's largest and oldest variety store chains. It operates 566 stores in 36 states. Its merchandise includes apparel and accessories; toys, games and books; dry goods and domestics; hardware and home furnishings; and stationery.



OTASCO-Economy Auto Stores—with 142 company-owned stores and 277 franchised stores in the south and southwest, selling auto accessories and parts, appliances, sporting goods and housewares.



Lerner Shops—the country's largest women's and children's apparel chain, with 342 stores coast-to-coast. McCrory continues to own the majority of Lerner's common stock.



S. Klein Department Stores, Inc.—the pioneer in the promotional department store field. It operates 10 stores in the New York, northern New Jersey, Philadelphia and metropolitan Washington, D.C. areas. Klein now will operate as a subsidiary of McCrory as a result of the acquisition by McCrory of more than 60 per cent of Klein voting securities.

In addition to the above, McCrory Corporation owns 49.7 per cent of the common stock of Glen Alden Corporation.

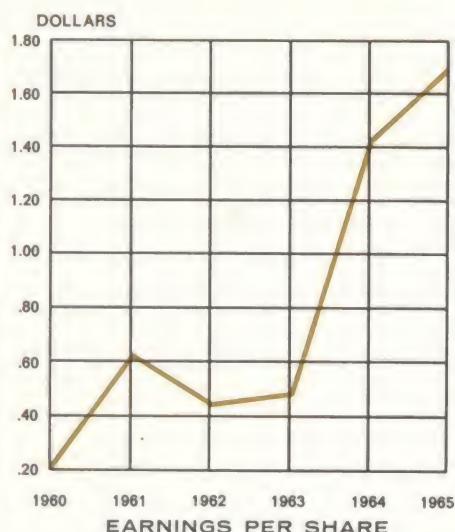
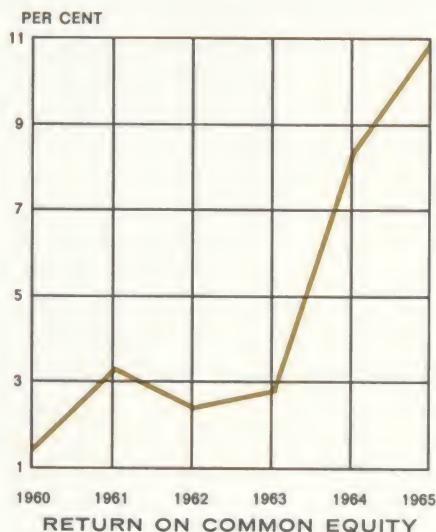
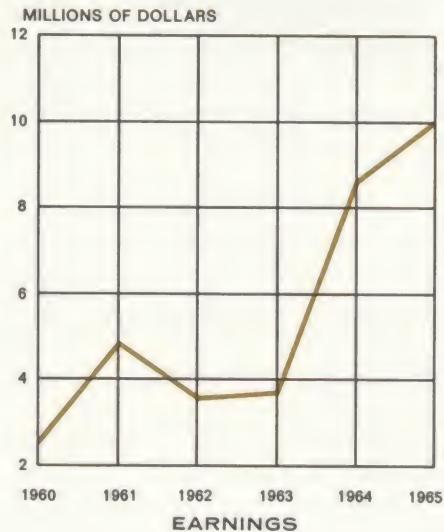
GA

Glen Alden is a diversified company consisting of RKO Theatres, located mainly in the east; Opp and Micolas Mills, Alabama manufacturers of greige cotton goods; and Swift Manufacturing Company, large Georgia fabric manufacturer.

Glen Alden owns approximately 28 per cent of the common stock of Philip Carey, manufacturers of products for building and industry. Glen Alden also has substantial cash available for further acquisitions and diversification.

McCRORY CORPORATION

REPORT TO THE STOCKHOLDERS FOR THE YEAR ENDED JANUARY 31, 1966



FINANCIAL HIGHLIGHTS

	1965	1964
Net sales	\$513,229,000	\$547,433,000
Net earnings	10,063,000	8,666,000
Cash generated	42,000,000	22,000,000
Return on common equity	10.9%	8.3%
Number of common shares outstanding	5,202,399	5,228,867
Net earnings per share	\$1.70	\$1.41
Cash generation per share	8.00	4.00
Cash dividends per share	1.20	.80

The Annual Meeting of Stockholders will be held at the York Distribution Center, 2955 East Market Street, York, Pennsylvania, on Tuesday, May 24, 1966, at 2:00 p.m. local time. Each stockholder entitled to vote thereat will receive by mail a formal notice of meeting, together with proxy statement and form of proxy, on or about May 4, 1966, at which time proxies will be solicited by order of the Board of Directors.

TO THE STOCKHOLDERS:



M. Riklis, Chairman of the Board

We are pleased to report that record earnings were achieved by your company in 1965. It was a year our company began to fulfill its potential . . . a year in which we achieved new highs in earnings, profit margins, cash generation and return on equity . . . a year when our incentive programs sparked greater employee initiative and productivity. And it was a year we launched new projects to implement our future growth.

Financial Progress

Sales of \$513,229,000 were achieved in 1965, compared with \$547,433,000 in 1964. The decline resulted from management's decision to eliminate certain unprofitable units during the year.

Net income climbed to a new high of \$10,063,000, approximately a 16 per cent increase over the \$8,666,000 earned in 1964. Our net return on sales was 2 per cent, up from 1.6 per cent in 1964. Earnings per share of common stock were \$1.70, compared with \$1.41 a year earlier.

Depreciation and amortization charges in 1965 amounted to \$8,946,000. Cash generated (net income, depreciation, amortization, deferred taxes and the net proceeds from the sale of Lerner Shops' stock) totaled \$42,000,000, equal to \$8.00 per common share, compared to \$22,000,000 or \$4.00 per share in 1964.

Based on our progress, the board of directors voted in February 1966 to increase the regular quarterly dividend from \$.25 to \$.30 per common share. Cash dividends on the common stock for 1965 totaled \$1.20 (consisting of quarterly dividends at the rate of \$.25 per share and an extra dividend of \$.20 per share declared March 24, 1965) up from \$.80 in 1964. In addition, McCrory distributed to its common stockholders on January 3, 1966 one share of Lerner common stock for each ten shares of McCrory held.

Our long-term debt was reduced by \$12,571,000. Net working capital at year-end stood at \$53,390,000, an increase of \$3,968,000 from the close of 1964.

All of our operations achieved continued gains last year. It was a year when our painstaking efforts to strengthen our operating management were rewarded.

Operations

In last year's Annual Report we expressed the conviction that McCrory-McLellan-Green (MMG), our variety division, had substantially improved prospects under its new leadership. Our confidence was fully justified. In 1965 MMG earned more than \$9,000,000 before taxes, up substantially from 1964. We expect further improvement in 1966.

OTASCO-Economy Auto Stores again set new sales and profit records in 1965. Record performances have been maintained since it became part of McCrory in 1960. We expect this division to continue its progress.

Lerner Shops continued to increase its profits. Since 1961, when Lerner was acquired, its profits have grown at an annual rate of better than 10 per cent.

On March 18, 1966, McCrory Corporation offered \$9,000,000 of its 5 per cent junior sinking fund debentures, due July 15, 1981, and 900,000 common stock purchase warrants in exchange for common stock and or convertible debentures of Klein. On April 11, 1966 the original offer expired and was extended to April 29, 1966. On April 11, McCrory owned more than 60 per cent of the voting securities of Klein. Klein, with sales of approximately \$200,000,000 annually, will be operated as a subsidiary of McCrory. A team of McCrory executives presently is involved in the rebuilding of the Klein operation.

McCrory Corporation reduced its interest in Lerner Shops during the year by means of a Lerner stock rights offering to our shareholders. The \$16,800,000 net cash proceeds of this sale were added to McCrory's working capital. McCrory continues to own a majority of Lerner's common stock.

Management

In February 1966, Samuel Neaman was elected president and chief operating officer of your company. His additional responsibility is part of a program to broaden McCrory Corporation management. A further step in this direction was taken shortly after Mr. Neaman's election with the naming of Samuel S. Brand as vice



S. Neaman, President

president in charge of all electronic data processing and related systems and procedures at the corporate and divisional levels.

We welcome to our board Jerome D. Twomey, president of the Metropolitan Division of the Franklin National Bank.

Personnel

Significant progress was achieved during the year in welding the personnel of our various divisions into an enthusiastic and dedicated team. Incentive programs were expanded so that our managerial personnel will continue to share in the progress they helped achieve.

We continue to strive to make McCrory Corporation a company where each individual has the opportunity to develop to his fullest potential.

Scholarship Program

A scholarship program was established in 1965 to pursue the company's interest in its employees and their children and to contribute to our society, as a whole, by making the benefits of higher education available to a greater number of young people.

Under the program, a minimum of 20 four-year scholarships will be awarded up to a maximum of \$1,000 a year per scholarship, depending upon the financial need of the family.

The first group of scholarship winners, 39 in number, has just been selected. These talented students, who come from 17 states, will share a total of \$20,000 in aid in the 1966-1967 academic year.

Outlook

Since the formation of McCrory Corporation in 1960, we have spent our energies and dollars in building management, in improving existing operations and in establishing a sound foundation for future growth. Capital expenditures for the year just ended totaled \$4,487,000 (\$4,751,000 in 1964) and were used primarily for the opening of 54 new stores and modernization of 201 older units.

Our organization has matured and we now are ready to initiate a major store expansion program. In 1966 we plan to open 81 new units. Two stores were opened under the Klein management in 1966, with a third scheduled to open later this year. Two additional stores, with 200,000-300,000 square feet of floor space, presently are on the drawing boards.

We intend to obtain a larger share of an expanding consumer market with our four-pronged attack in the variety, women's apparel, tire, battery and accessory and promotional department store fields.

Based on this expansion and the favorable economic conditions expected in the period ahead, we look forward to continued progress in 1966.

Conclusion

We would like to express our appreciation to our board of directors and our officers for the contributions made by them to this year's successful results.

We also would like to thank our friends at our major banking institutions—Chemical Bank New York Trust Company, The Chase Manhattan Bank, The First National Bank of Boston and Franklin National Bank—as well as all the other banks throughout the country who serve our stores, for their support and help.

We also would like to thank our employees and our suppliers for their help and loyalty throughout the year.

Sincerely,

M. RIKLIS
Chairman of the Board

S. NEAMAN
President

April 18, 1966

Top Left: Lerner computer installation typifies advanced electronic data processing equipment used throughout the company. Top Right: Father and daughters examine merchandise at McCrory-McLellan-Green store. Bottom Left: Lerner Shops customer weighs new hat purchase. Bottom Right: OTASCO-Economy Auto Stores and McCrory-McLellan-Green executives share ideas at meeting in Tulsa.



McCRORY OPERATIONS

McCRORY-MCLELLAN-GREEN

After studying McCrory-McLellan-Green's (MMG) spectacular recovery in 1964, a leading variety industry publication devoted one issue to the question, "Is MMG on the right track?"

A review of all aspects of the division's progress provides an affirmative answer: Yes, not only is MMG on the right track—it has become in two short years, under its new leadership, one of the forward-looking chains in its industry.

Late last year, MMG began a new store expansion program, opening seven stores in suburban shopping centers. This program will be accelerated in 1966.

Model stores have been established in each of the division's 47 districts. These stores have been a study and testing arena for new retail techniques.

The model stores have proven extremely helpful in improving both new store and existing store merchandise selection, display techniques, promotional methods and floor layout.

MMG's program of regional decentralization, instituted in 1964, was enhanced last year. Two new regional vice presidents were appointed. A vice president is now in charge of each of the six regions and has a full staff that includes a merchandising manager, sales manager, personnel manager and controller. This has aided the various regions in responding to local marketing problems more quickly and efficiently.

Various MMG centralized functions also have been strengthened. During the year, new officer-level appointments were made for national store mer-

STORE INFORMATION

Stores in operation as of Feb. 1, 1965	563	400	330	9	1,302
Stores opened Jan. 31, 1965 through Jan. 31, 1966	12	28	14	1	55
Stores closed Jan. 31, 1965 through Jan. 31, 1966	9	9	2	0	20
Stores in operation at Jan. 31, 1966	566	419	342	10	1,337
Stores remodeled Jan. 31, 1965 through Jan. 31, 1966	170	7	24	0	201
Stores expected to open Jan. 31, 1966 through Jan. 31, 1967	32	33	13	3	81

	MMG	OTASCO	Lerner	Klein	Total
Stores in operation as of Feb. 1, 1965	563	400	330	9	1,302
Stores opened Jan. 31, 1965 through Jan. 31, 1966	12	28	14	1	55
Stores closed Jan. 31, 1965 through Jan. 31, 1966	9	9	2	0	20
Stores in operation at Jan. 31, 1966	566	419	342	10	1,337
Stores remodeled Jan. 31, 1965 through Jan. 31, 1966	170	7	24	0	201
Stores expected to open Jan. 31, 1966 through Jan. 31, 1967	32	33	13	3	81

McCORMICK-DOUGLASS McCRORY OPERATIONS

chandise manager, head buyer, head merchandiser, national field controller, divisional controller and coordinator of distribution and construction. The central buying group, as a whole, was strengthened with a number of appointments made from within and without the organization. The efficiency of our York Distribution Center was increased to the point where we now are able to ship 40 per cent more merchandise to our stores from York than we were a year ago.

By way of rewarding present personnel and attracting newcomers to the company, the division's retirement benefit plan and insurance plans were greatly improved during the year. We believe that our retirement and insurance plans are the most liberal of any company in the variety field.

OTASCO-ECONOMY AUTO STORES

In 1965 this operation recorded its highest sales and profit in its 48 year history.

Alert purchasing and hard-hitting promotions helped the division make the most of its growing markets.

Uninterrupted expansion has been a characteristic feature of the automotive aftermarket, which includes tires, batteries, replacement parts and accessories. Ten years ago there were 52,000,000 registered passenger vehicles; today there are 75,000,000, and it is estimated that in ten years there will be 97,000,000.

In order to serve this growing market, OTASCO has scheduled continued expansion of its facilities. The 1966 expansion will highlight larger and more modern service facilities with the latest technical equipment for diagnostic auto testing.

In line with the division's increasing sales, a larger computer was installed at headquarters in Tulsa which will provide a number of new efficiencies.

OTASCO has been a front-runner in providing employee benefits—the division's group life insurance program was expanded during the year to offer broader, more liberal coverage.

LERNER SHOPS

Sales and earnings of Lerner Shops, the largest chain of women's and children's apparel stores in the country, set record highs in 1965.

The same vital ingredients that have made Lerner grow faster and more profitably than its competitors in the industry, over a period of many years, were again responsible for 1965 results.

Lerner plays an important fashion role, bringing to the average American woman and her children the most attractively styled quality clothes at prices she can afford. Because of its size, Lerner has been able to concentrate the impact of its massive centralized buying power, passing on advantages of price and quality to its customers. Its large, specialized buying staff make it possible for customers all over the country to participate in the latest style trends of New York, Hollywood, Miami, Rome and Paris.

Complementing Lerner fashion strength is a solid foundation of modern mass-marketing technology and experience. The company is divided into five regions, each with its own distribution center, general manager and merchandising and store supervision staffs. This permits Lerner to maintain close relationships with its stores.

A high degree of fashion know-how evidenced by suit modeled at right is an important ingredient at our Lerner Shops, McCrory-McLellan-Green and S. Klein Department Stores, Inc. operations.

Lerner Shops was one of the first national retail chains to use electronic data processing to solve problems ranging from accounting to inventory control and merchandise distribution. This capability is now widely spread throughout the McCrory organization. Lerner experts pioneered in the creation of computer systems by which management can tell within a few days what merchandise is selling well in what stores and how best to benefit from such consumer trends.

S. KLEIN DEPARTMENT STORES, INC.

S. Klein Department Stores, Inc., which has been a McCrory subsidiary since April, 1966, did not operate satisfactorily during 1965.

Samuel Neaman was elected chairman and chief executive officer in September 1965. In January 1966, Jack Schwadron, former president of E. J. Korvette, was elected president of S. Klein. In the same month, Duffy Lewis, previously general merchandising manager for Alexander's, joined the organization as a merchandising consultant.

A broad rebuilding program currently is underway, giving emphasis to improving the fashion segment of the business and establishing more efficient financial controls and operating procedures.

The two stores opened under Klein management in 1966 are operating successfully.



Leonard C. Lane, Vice Chairman



GLEN ALDEN CORPORATION

McCrory owns 49.7 per cent of the outstanding common stock of Glen Alden Corporation. In 1965 McCrory received dividends of \$.70 per share of Glen Alden stock, totaling \$1,671,761.

Glen Alden successfully pursued three objectives last year:

Increasing the profitability of existing operations

Disposing of those operations which were providing an insufficient return on investment

Searching for acquisitions of sufficient size to employ its cash resources

The company's increase in operating profit and other financial highlights are described in the table below. In early 1966, Glen Alden acquired approximately 283,000 shares of common stock of Philip Carey Manufacturing Company, a Cincinnati-based manufacturer of materials for building and industry.

In July of 1965, Glen Alden purchased one million shares of McKesson and Robbins, Inc. through a tender offer. This was sold at its cost in October 1965.

Paul A. Johnston was elected president and chief executive officer of Glen Alden during the year, and Meshulam Riklis was elected chairman of the board.

Glen Alden Comparative Highlights

	1965	1964
Net sales and revenues	\$79,171,000	\$98,621,000
Income from operations before nonoperating items	6,526,000	6,000,000
Nonoperating items	(3,213,000)	3,777,000
Net income	3,313,000	9,777,000
Cash	42,770,000	37,821,000
Net working capital	46,666,000	41,103,000
Current ratio	7.9 to 1	4.8 to 1
Book value of shares	68,620,000	70,595,000
Book value per share	14.28	14.72

337,000 square foot S. Klein store in Woodbridge, New Jersey



LERNER SHOPS OFFICERS

HAROLD M. LANE, SR.	<i>Chief Executive Officer & Chairman of Executive Committee</i>
STANLEY H. KUNSBERG	<i>Chairman of the Board</i>
HAROLD M. LANE, JR.	<i>President</i>
HAROLD F. MILLER	<i>Executive Vice President & Secretary</i>
D. JOHN PALLADINO	<i>Vice President & Treasurer</i>
MILTON SEEGAL	<i>Vice President</i>
ROBERT L. KRILL	<i>Vice President</i>
HAROLD GREENE	<i>Vice President</i>
EUGENE SHAW	<i>Vice President</i>
MELVIN J. REDMOND	<i>Vice President</i>
KARL MARGOLIS	<i>Vice President</i>
NATHAN B. EPSTEIN	<i>Vice President</i>
SAMUEL S. BRAND	<i>Vice President</i>
DAVID D. GREENWALD	<i>Vice President</i>
BRUCE A. JACOBI	<i>Vice President</i>
EUGENE D. FRANK	<i>Vice President</i>
JACOB J. SCHER	<i>Vice President</i>
MAX J. MILLER	<i>Vice President</i>

OTASCO-ECONOMY AUTO STORES OFFICERS

MAURICE SANDITEN	<i>Chairman</i>
JULIUS SANDITEN	<i>President</i>
ABE BRAND	<i>Executive Vice President</i>
ELY SANDITEN	<i>Senior Vice President</i>
EDGAR R. SANDITEN	<i>Vice President</i>
A. A. McNATT	<i>Vice President</i>
JOHN R. BEHL	<i>Vice President</i>
EDWARD WILKONSON	<i>Vice President</i>
SAMUEL H. MINSKY	<i>Secretary</i>
HERMAN SANDITEN	<i>Treasurer</i>

MCCRORY-MCLELLAN-GREEN STORES OFFICERS

S. NEAMAN	<i>President</i>
L. C. SHOCKLEY	<i>Senior Vice President, Assistant to the President</i>
J. F. KING	<i>Senior Vice President, National Store Operations Manager</i>
S. MAER	<i>Vice President, National Merchandise Manager</i>
C. MURPHREE	<i>Vice President, Head Buyer</i>
F. M. PATCHEN	<i>Vice President, Head Merchandiser</i>
W. SHULDINER	<i>Vice President, Movement of Goods and Construction</i>
R. O. KRISTIANSEN	<i>Vice President, Distribution Center Administration</i>
B. LITWAK	<i>Vice President, Regional Manager - Northeast</i>
C. F. CARTER, JR.	<i>Vice President, Regional Manager - East Central</i>
T. B. ACKER	<i>Vice President, Regional Manager - Mid-Atlantic</i>
N. G. BAILEY	<i>Vice President, Regional Manager - Mid-West</i>
N. P. McLUCKIE	<i>Vice President, Regional Manager - Southeast</i>
N. S. McBRAYER	<i>Vice President, Regional Manager - Southwest</i>

S. KLEIN DEPARTMENT STORES OFFICERS

SAMUEL NEAMAN	<i>Chairman of the Board and Chief Executive Officer</i>
JACK SCHWADRON	<i>President</i>
BERNARD FUCHS	<i>Executive Vice President, Treasurer</i>
JOSEPH WALKER	<i>Secretary</i>

**SOURCE AND APPLICATION OF CONSOLIDATED FINANCIAL RESOURCES
FOR THE YEAR ENDED JANUARY 31, 1966****SOURCE**

Operations:

Net income for the year \$10,063,230

Charges not requiring current outlays:

Depreciation and amortization, including debt expense \$ 8,946,322

Deferred Federal income taxes 6,180,000 15,126,322Sale of Lerner Stores Corporation common stock 16,796,819
\$41,986,371**APPLICATION**

Reduction in long-term debt \$12,570,549

Dividends paid 7,508,990

Cost of treasury stock purchased, net of common stock sold under stock option plans 5,693,337

Net additions to property and equipment 3,077,673

Investment in S. Klein Department Stores, Inc. 3,419,178

Charges to reserve for closing of loss stores 2,774,451

Other—net 2,974,154

Increase in working capital 3,968,039

\$41,986,371*See notes to financial statements.*

CORPORATION

AND SUBSIDIARY COMPANIES



Isidore A. Becker, Financial Vice President & Treasurer

STATEMENT OF CONSOLIDATED INCOME

FOR THE YEARS ENDED JANUARY 31, 1966 AND 1965

	<u>1966</u>	<u>1965</u>
NET SALES—Merchandise, restaurant and concession	<u>\$513,228,658</u>	<u>\$547,432,672</u>
Cost of goods sold, buying and occupancy expenses, net of service charge income	364,469,561	397,768,567
Selling, general and administrative expenses	120,100,671	122,573,685
	<u>484,570,232</u>	<u>520,342,252</u>
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION	28,658,426	27,090,420
Depreciation and amortization	8,079,626	8,606,554
OPERATING PROFIT	<u>20,578,800</u>	<u>18,483,866</u>
Other expenses (net):		
Interest	6,845,652	6,151,524
Amortization of debt expense	866,696	866,696
	<u>7,712,348</u>	<u>7,018,220</u>
Less—Investment income, earnings of subsidiary not consolidated and miscellaneous income (net)	3,376,778	2,076,231
	<u>4,335,570</u>	<u>4,941,989</u>
EARNINGS BEFORE PROVISION FOR FEDERAL INCOME TAXES	16,243,230	13,541,877
Provision for deferred Federal income taxes	<u>6,180,000</u>	<u>4,876,000</u>
NET INCOME	<u>\$ 10,063,230</u>	<u>\$ 8,665,877</u>

See notes to financial statements.

CONSOLIDATED BALANCE SHEET JANUARY 31, 1966 AND 1965
ASSETS

	<u>1966</u>	<u>1965</u>
CURRENT ASSETS:		
Cash and certificates of deposit.....	\$ 14,669,252	\$ 12,988,299
Receivables after allowance for doubtful accounts.....	4,689,848	1,792,397
Merchandise inventories, at lower of cost (mainly retail method) or market.....	79,080,220	86,293,802
Prepaid expenses.....	1,994,820	2,128,655
TOTAL CURRENT ASSETS.....	<u>100,434,140</u>	<u>103,203,153</u>
 INVESTMENTS IN AND ADVANCES TO:		
Glen Alden Corporation, at cost.....	34,267,491	34,258,246
S. Klein Department Stores, Inc., at cost.....	3,419,178	
McCrory Credit Corporation, subsidiary not consolidated..	6,305,793	5,918,528
	<u>43,992,462</u>	<u>40,176,774</u>
 PROPERTY AND EQUIPMENT, at cost.....	150,539,572	151,157,064
Less accumulated depreciation and amortization.....	83,877,375	79,492,914
	<u>66,662,197</u>	<u>71,664,150</u>
 OTHER ASSETS:		
Excess of cost of investment in Lerner Stores Corporation common stock over related equity.....	8,632,938	17,075,188
Unamortized debt expense.....	6,664,312	7,531,008
Mortgages and sundry.....	4,557,845	2,450,995
Unamortized goodwill and deferred charges.....	2,518,115	2,642,072
	<u>22,373,210</u>	<u>29,699,263</u>
TOTAL.....	<u>\$233,462,009</u>	<u>\$244,743,340</u>

See notes to financial statements.

CORPORATION AND SUBSIDIARY COMPANIES

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>1966</u>	<u>1965</u>
CURRENT LIABILITIES:		
Current maturities of long-term debt.....	\$ 6,365,922	\$ 12,800,395
Accounts payable.....	18,105,023	20,890,953
Accrued expenses and sundry.....	17,727,121	13,910,467
Accrued Federal income taxes.....	4,845,697	6,179,000
TOTAL CURRENT LIABILITIES.....	47,043,763	53,780,815
 LONG-TERM DEBT, less current maturities.....	 53,756,308	 66,326,857
 OTHER NONCURRENT ITEMS:		
Deferred Federal income taxes.....	12,538,494	6,805,541
Reserve for the closing or sale of loss stores.....	1,029,121	1,303,572
Sundry.....	1,600,585	1,156,602
	15,168,200	9,265,715
 MINORITY INTEREST IN SUBSIDIARY COMPANY.....	 13,811,129	 1,758,893
 STOCKHOLDERS' EQUITY:		
Preferred and preference stocks.....	22,463,000	24,602,800
Common stock, \$.50 par value, authorized 15,000,000 shares; issued 6,075,467 shares and 5,977,367 shares.....	3,037,733	2,988,683
Capital surplus.....	41,280,363	39,098,719
Earned surplus.....	54,322,890	61,438,766
	121,103,986	128,128,968
Less common stock in treasury 873,068 shares and 748,500 shares, at cost.....	17,421,377	14,517,908
TOTAL STOCKHOLDERS' EQUITY.....	103,682,609	113,611,060
TOTAL.....	\$233,462,009	\$244,743,340

See notes to financial statements.

McCRORY CORPORATION

AND SUBSIDIARY COMPANIES

STATEMENT OF STOCKHOLDERS' EQUITY

FOR THE YEAR ENDED JANUARY 31, 1966

	Preferred and Preference Stock	Common Stock Issued	Capital Surplus	Earned Surplus	Total
BALANCE, FEBRUARY 1, 1965.....	\$24,602,800	\$2,988,683	\$39,098,719	\$61,438,766	<u>\$128,128,968</u>
ADD (DEDUCT):					
Net income for the year.....				10,063,230	
Dividends:					
On preferred and preference stocks:					
3½% series, at \$3.50 per annum.....				(35,850)	
\$6 preference stock, at \$6.00 per annum				(568,350)	
4½% series, at \$4.50 per annum.....				(56,537)	
5½% series, at \$5.50 per annum.....				(556,650)	
On common stock:					
Cash (\$1.20 per share).....				(6,291,603)	
In kind—524,923 shares of Lerner Stores Corporation common stock distributed on January 3, 1966.....				(4,551,249)	
Provision for estimated losses principally in connection with the closing of certain Lanes Department Stores, net of estimated Federal income tax benefit.....				(2,500,000)	
Gain on sale of 1,974,088 shares of Lerner Stores Corporation common stock.....				219,441	
Conversion of preferred and preference stock into common stock.....	(2,139,800)	46,893	2,092,907		
Excess of proceeds over par value of com- mon stock issued on exercise of warrants.		2,157	84,103		
Excess of cost of shares of treasury stock issued under stock option plans over option price				(2,789,868)	
Other—net			4,634	(48,440)	
BALANCE, JANUARY 31, 1966.....	<u>\$22,463,000</u>	<u>\$3,037,733</u>	<u>\$41,280,363</u>	<u>\$54,322,890</u>	<u>\$121,103,986</u>
Less—Cost of 873,068 shares of common stock held in treasury at January 31, 1966..				17,421,377	
STOCKHOLDERS' EQUITY...				<u>\$103,682,609</u>	

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS, JANUARY 31, 1966

Principles of consolidation

The accompanying consolidated financial statements reflect the consolidation of the accounts of Lerner Stores Corporation (majority-owned) and all wholly-owned subsidiaries except McCrory Credit Corporation.

McCrory Credit Corporation and equity in instalment accounts sold

McCrory and its affiliates have financing agreements with McCrory Credit Corporation under which certain customers' accounts receivable created each month are assigned to McCrory Credit Corporation. The latter remits 90% of the amount of accounts assigned, the remaining 10% representing the companies' equity therein. The companies accept reassignment of any accounts in default, as defined. McCrory's equity in assigned accounts receivable (the uncollected balances of which amount to \$29,033,000 at January 31, 1966) is included in receivables in the consolidated balance sheet. Collections in January 1966 (payable to McCrory Credit Corporation in February 1966) from assigned customers' accounts (net of 10% equity) amounting to \$7,502,000 have been deducted from receivables in the consolidated balance sheet.

The investment in McCrory Credit Corporation is carried at McCrory's equity in the capital and undistributed earnings as shown by the audited financial statement of the subsidiary at January 31, 1966 summarized below:

	Total	Current Maturities	Long-Term Debt
5 1/2% sinking fund subordinated debentures, due 1976(a).....	\$36,040,960		\$36,040,960
5.235% subordinated notes, due in equal annual instalments to 1970	8,931,422	\$1,786,284	7,145,138
5% junior subordinated notes, maturing serially from April 1, 1965 to April 1, 1970.....	10,149,978	3,582,345	6,567,633
3% sinking fund debentures, due July 1, 1967 (b).....	2,775,000	175,000	2,600,000
Sundry, principally mortgages.....	2,224,870	822,293	1,402,577
	<u>\$60,122,230</u>	<u>\$6,365,922</u>	<u>\$53,756,308</u>

chase cost has been recognized by the McCrory management to be similar in nature to intangibles which have not declined in value since acquisition. Accordingly, at dates of acquisition, the McCrory management adopted the policy of not amortizing this excess purchase cost so long as there is no recognized diminution in value of its investment in Lerner.

Long-term debt

Long-term debt at January 31, 1966, including maturities due within one year, consisted of the following:

	Total	Current Maturities	Long-Term Debt
5 1/2% sinking fund subordinated debentures, due 1976(a).....	\$36,040,960		\$36,040,960
5.235% subordinated notes, due in equal annual instalments to 1970	8,931,422	\$1,786,284	7,145,138
5% junior subordinated notes, maturing serially from April 1, 1965 to April 1, 1970.....	10,149,978	3,582,345	6,567,633
3% sinking fund debentures, due July 1, 1967 (b).....	2,775,000	175,000	2,600,000
Sundry, principally mortgages.....	2,224,870	822,293	1,402,577
	<u>\$60,122,230</u>	<u>\$6,365,922</u>	<u>\$53,756,308</u>

(a) Exclusive of \$831,104 redeemed and cancelled which is available for 1968 sinking fund payment. Sinking fund requirements in each year are as follows: 1968 through 1971—\$2,048,448; 1972 through 1976—\$3,277,517, with a final payment of \$12,290,687 due on August 15, 1976.

(b) Exclusive of \$425,000 in treasury. Sinking fund requirement is \$2,600,000 at maturity.

The aggregate of long-term debt maturing during the five years ended January 31, 1971 is approximately as follows: 1966, \$6,366,000 (included in current liabilities); 1967, \$5,457,000; 1968, \$4,278,000; 1969, \$5,090,000; and 1970, \$4,470,000. Agreements covering certain indebtedness of McCrory contain covenants concerning working capital position, additional indebtedness, limitations on the declaration and payment of dividends, restrictions on transactions in capital stock, etc. At January 31, 1966 approximately \$18,258,000 of consolidated surplus was free of restrictions.

Federal income taxes

Federal income taxes are based upon McCrory's filing consolidated income tax returns and have been reduced by carry-forward operating losses. The consolidated tax return for the year ended January 31, 1965 showed no tax due and it is expected that the current year return will also show no tax due. At January 31, 1966 McCrory (including wholly-owned subsidiaries) has an unused investment tax credit of approximately \$1,000,000.

For Federal income tax purposes accelerated methods of computing depreciation and the instalment method of reporting certain sales have been availed of. The use of these methods has resulted in tax deferrals which have been charged against income and credited to deferred Federal income taxes.

At January 31, 1966 deferred Federal income taxes of \$3,850,000 relating to instalment accounts receivable are included in current liabilities. The corresponding amount of deferred Federal income taxes of \$3,544,000 at January 31, 1965 has been reclassified to conform to the 1966 presentation.

Reserve for the closing or sale of loss stores

During the year ended January 31, 1965 McCrory's Board of Directors established a reserve for losses principally inherent, although not yet realized, in planned closing or sale of loss stores and discontinuance of credit service at certain stores. During the current year McCrory provided and added to the reserve the amount of \$2,500,000, net of estimated Federal tax benefit (\$2,300,000), for estimated losses principally in connection with the closing of certain Lanes Department Stores. In the years ended January 31, 1966 and 1965 charges totaling \$2,774,451 and \$2,196,428, respectively, net of Federal income taxes, were made to this reserve.

Net income of McCrory Credit Corporation for the years ended January 31, 1966 and 1965 of \$387,265 and \$365,088, respectively, is included in consolidated income.

Investments

During 1964 McCrory acquired 2,388,230 common shares of Glen Alden Corporation for cash and notes payable. These shares represent 49.7% of the total outstanding at January 31, 1966 and had a market quotation value of \$29,554,350 at that date. McCrory's equity in the net assets of Glen Alden based on its financial statements as of December 31, 1965 was approximately equal to the cost of the investment. Dividends received from Glen Alden for the years ended January 31, 1966 and 1965 amounting to \$1,671,761 and \$674,073, respectively, are included in consolidated income.

During 1965 McCrory acquired 225,518 common shares of S. Klein Department Stores, Inc. for cash. These shares represent approximately 19% of the total outstanding at January 31, 1966 and had a market quotation value of \$2,593,457 at that date. On March 18, 1966 McCrory offered \$9,000,000 of its 5% Junior Sinking Fund Subordinated Debentures, due July 15, 1981 and 900,000 Common Stock Purchase Warrants in exchange for common stock or convertible debentures of Klein. The offer expires in April 1966.

Investment in Lerner Stores Corporation common stock

Prior to January 3, 1966 McCrory owned approximately 99% of the common stock of Lerner Stores Corporation; following distribution of 524,923 shares to McCrory stockholders on that date and sale of 1,974,088 shares in a rights offering to McCrory holders of record on January 18, 1966, McCrory held at January 31, 1966 a majority (2,555,457 shares) of Lerner common stock.

The aggregate cost at January 31, 1966 of the investment in Lerner exceeded McCrory's equity in underlying Lerner net assets at dates of acquisition by \$8,632,938. This excess pur-

Preferred and preference stock and common stock purchase warrants

At January 31, 1966, 224,630 shares of \$100 par value preferred and preference stock were outstanding (aggregate par value \$22,463,000) and 424,869 shares of common stock were reserved for the conversion thereof, as follows:

Class of Stock	Shares Author- ized	Out- standing	Redemp- tion Price	January 31, 1966 Conversion Rate	Common Shares Reserved
3 1/2% cumulative convertible preferred	26,486	6,486	\$104	5 for 1	32,430
\$6 cumulative convertible preference	95,695	94,725	115	3/14 for 1	20,298
5 1/2% cumulative subordinated preference B.....	7,232	7,232	100	5 5/9 for 1	40,178
4 1/2% cumulative subordinated preference B.....	121,625	116,187	100	2 6/7 for 1	331,963
		224,630			424,869

On November 4, 1965 McCrory's Board of Directors authorized extending the expiration date of warrants to purchase McCrory common stock from March 15, 1976 to and including March 15, 1981 at a warrant price during said extended five year period increased from \$20 per share to \$22.50 per share.

At January 31, 1966, 2,664,257 warrants were outstanding and 900,000 warrants were authorized for issuance under the Klein exchange offer covered elsewhere herein.

Stock option and employee stock purchase plans

Shares of McCrory's common stock reserved for issuance under stock option and employee stock purchase plans are tabulated below:

	1960 and 1961 plans	1964 plan	Employee stock purchase plans
Option price range.....	\$11.91 1/2-\$22.80	\$13.125-\$20.125	\$10.63-\$14.24
Outstanding February 1, 1965	490,700	388,100	14,533
Transactions during year ended January 31, 1966:			
Granted		151,100	
Exercised	(292,300)	(122,314)	(11,613)
Cancelled, etc.....	(73,750)	(750)	(91)
Outstanding January 31, 1966	124,650	416,136	2,829
At January 31, 1966:			
Exercisable	42,850	85,373	2,829
Available for grant	None	211,550	None

During the year ended January 31, 1966 options for 426,227 shares were exercised at an aggregate option price of \$5,424,000.

Pension plans

Under the noncontributory retirement plan covering eligible employees of the McCrory-McLellan-Green Stores Division, the

cost of the plan will be met, as required, by periodic contributions to the trust fund. The amounts accumulated in the trust fund in respect of the McCrory-McLellan-Green plan exceed the actuarial liability as computed by the consulting actuary. For this reason, no provision for costs under this plan has been reflected in the statements of consolidated income subsequent to 1960. Contributions of \$1,170,000 and \$1,000,000, respectively, for the years ended January 31, 1966 and 1965, made under other noncontributory retirement and profit sharing plans, principally for employees of Otasco-Economy Auto Stores Division and Lerner Stores Corporation, have been reflected in the statement of consolidated income.

Net income and earned surplus

For the year ended January 31, 1965 the charge to establish a reserve for the closing or sale of loss stores and discontinuance of credit service (\$3,500,000), provision for estimated additional taxes and other adjustments applicable to prior years (\$2,174,348), and estimated recovery in settlement of certain legal actions, less related legal expenses (\$575,000) included in the statement of consolidated earned surplus were set forth as special items following net income in reports filed with the Securities and Exchange Commission.

For the year ended January 31, 1966, the addition to the reserve for the closing or sale of loss stores and discontinuance of credit service (\$2,500,000) and the gain on sale of Lerner Stores Corporation common stock (\$219,441) included in the statement of stockholders' equity are being similarly treated as special items.

Other matters

In January 1965 Rapid-American Corporation agreed to the proposed settlement of certain derivative actions by payment to McCrory of \$800,000. Such payment, at the option of Rapid, may be made in cash or in McCrory common stock or in both. On October 27, 1965 judgment was entered in accordance with the terms of the settlement. The \$800,000 receivable from Rapid is included in mortgages and sundry in the consolidated balance sheet.

There are several claims pending against McCrory and subsidiaries together with other contingencies (including long-term leases on locations at which operations have been or will be discontinued). Total liability cannot be determined but management and counsel are of the opinion that the liabilities in the consolidated financial statements are adequate to cover the same.

At January 31, 1966 the minimum annual rentals upon property leased to McCrory and its subsidiaries under leases expiring after January 1969 amount to approximately \$22,500,000 plus, in certain instances, real estate taxes, insurance, etc. McCrory remains contingently liable under certain long-term leases assumed by the respective purchasers in connection with several sales of store operations, particularly with respect to those of Butler Brothers and Metropolitan Stores, sold in prior years. However, McCrory has in most cases received from the purchasers valid and enforceable agreements of assumption of liabilities and indemnification in form satisfactory to counsel for McCrory.

ACCOUNTANTS' OPINION

McCRORY CORPORATION:

We have examined the financial statements of McCrory Corporation and subsidiary companies except Lerner Stores Corporation and its subsidiaries for the year ended January 31, 1966. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As to Lerner Stores Corporation and its subsidiaries, we were furnished with the report of other accountants on their examination of the financial statements of that company and its subsidiaries for the year.

In our opinion, based on our examination and the report of other accountants referred to above, the accompanying consolidated balance sheet and statements of consolidated income, stockholders' equity and source and application of consolidated financial resources present fairly the financial position of McCrory Corporation and subsidiary companies at January 31, 1966 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y.
March 29, 1966

HASKINS & SELLS
Certified Public Accountants

BOARD OF DIRECTORS

*ISIDORE A. BECKER
 PATRICK J. CLIFFORD
 ALBERT N. GREENFIELD
 BERNARD KOBROVSKY
 STANLEY H. KUNNSBERG
 *HAROLD M. LANE, SR.
 HAROLD M. LANE, JR.
 *LEONARD C. LANE
 SEYMOUR LAZAR
 SAMUEL J. LEVY
 *SAMUEL NEAMAN
 *GILBERT H. PERKINS
 *BERT R. PRALL
 *MESHULAM RIKLIS
 JULIUS SANDITEN
 LORENCE A. SILVERBERG
 *LEONARD SPANGENBERG
 JEROME D. TWOMEY
 *HARRY H. WACHTEL
 HUGH C. WARD
 *J. S. WEINSTEIN

*Member of Executive Committee

OFFICERS

MESHULAM RIKLIS
Chairman of the Board

LEONARD C. LANE
Vice Chairman

HAROLD M. LANE, SR.
Vice Chairman

SAMUEL NEAMAN
President

ISIDORE A. BECKER
Financial Vice President & Treasurer

HAROLD M. LANE, JR.
Executive Vice President

JULIUS SANDITEN
Executive Vice President

STANLEY H. KUNNSBERG
Executive Vice President

HARRY H. WACHTEL
Executive Vice President

HAIM BERNSTEIN SAMUEL S. BRAND BRUCE JACOBI ELY SANDITEN
Vice President *Vice President* *Vice President* *Vice President*

SEYMOUR GREENE
Secretary

COMMITTEE CHAIRMEN

LEONARD SPANGENBERG
Executive Committee
 BERNARD KOBROVSKY
Salary and Compensation Committee
 GILBERT H. PERKINS
Stock Option Committee
 J. S. WEINSTEIN
Acquisition and Diversification Committee

DIVISION AND AFFILIATED COMPANY PRESIDENTS

SAMUEL NEAMAN
McCormick-McLellan-Green Stores
 HAROLD M. LANE, JR.
Lerner Stores Corporation
 JULIUS SANDITEN
OTASCO-Economy Auto Stores
 JACK SCHWADRON
S. Klein Department Stores, Inc.
 PAUL A. JOHNSTON
Glen Alden Corporation

AUDITORS HASKINS & SELLS, NEW YORK, N. Y.**GENERAL COUNSEL** WACHTEL & MICHAELSON, NEW YORK, N. Y.**TAX ADVISORS** HANIGSBERG, DELSON & BROSER, NEW YORK, N. Y.**PUBLIC RELATIONS** RUBENSTEIN, WOLFSON & CO., NEW YORK, N. Y.

TRANSFER
 AGENTS Common Stock } Chemical Bank New York Trust Company and
 5 1/2 % Preference B Stock } First National Bank of Chicago

3 1/2 % Preferred Stock } Morgan Guaranty Trust Company of New York and
 \$6 Preference Stock } First National Bank of Chicago

REGISTRARS Common Stock } Morgan Guaranty Trust Company of New York and
 5 1/2 % Preference B Stock } Continental Illinois National Bank and Trust Company of Chicago

4 1/2 % Preference B Stock } The Chase Manhattan Bank and
 } Continental Illinois National Bank and Trust Company of Chicago

EXECUTIVE OFFICES 3 1/2 % Preferred Stock } Chemical Bank New York Trust Company and
 5 1/2 % Preference B Stock } Continental Illinois National Bank and Trust Company of Chicago

711 FIFTH AVENUE, NEW YORK, N. Y. 10022

**McCORORY
CORPORATION**
711 FIFTH AVENUE, NEW YORK, N. Y. 10022



Cleveland Public Library
325 Superior Avenue
Cleveland, Ohio 44114

Att: Miss Agnes O'Hanlon
Head Bus. Serv. Dept.